

Donor-Advised Funds

Charitable Giving and the Benefits of a Donor-Advised Fund

Private foundations were once the traditional charitable gifting vehicle for donors with substantial assets. However, the limitations on deductions for contributions made to private foundations and the complicated rules governing their operation can be a deterrent to clients interested in creating a vehicle for charitable giving. Donor-advised funds present an attractive alternative to private foundations and are relatively simple and inexpensive to establish. Moreover, because a donor-advised fund is treated as a public charity under the Internal Revenue Code, contributions to a donor-advised fund are eligible for the most favorable tax deduction rules.

Scope and Ease to Establish

Donor-advised funds have historically been offered only by community foundations with a local or state focus. In recent years, public charities and commercial mutual funds have broadened the scope of donor-advised funds, offering national opportunities for charitable giving.

Donor-advised funds are separate accounts, but not separate entities, within a public charity or community foundation. A donor-advised fund works as follows: a donor enters into an agreement with a public charity to establish a donor-advised fund. The donor then makes an unconditional and irrevocable gift to the donor-advised fund. The money in the fund is managed by the charitable organization, and the donor is granted the privilege of making non-binding recommendations regarding when and to whom the amounts in the fund should be distributed. Responsibility for administration of the fund lies with the organization which alleviates the record-keeping and tax reporting burdens that would otherwise fall on the donor. Depending on the policies of the fund, the donor may be permitted to let the fund accrue capital for a number of years before making recommendations about distributions. However, suggestions for distributions are advisory only and do not bind the charitable entity holding the fund.

Tax Benefits

Contributions to a donor-advised fund are deductible for the year in which the contribution was made, regardless of when the assets in the fund are ultimately distributed to charity. In addition, the most favorable deduction limitations apply, entitling a donor to a deduction for a contribution of cash, stock, or other assets as if the donor had made a contribution directly to a public charity.

Organizations that Offer Donor-Advised Funds

In addition to community foundations, several major hospitals, universities, religious organizations and national charities now offer donor-advised funds. Many require that all or part of the fund be used to further the sponsoring charity's exempt purpose.

Community Foundations

The community foundation is a popular and traditional means to create a donor advised fund. Community foundations are an excellent resource for persons who want a local focus to their charitable giving. There are 500 community foundations in the United States, most are small with a city or county focus. For

further information on community foundations, contact the Council on Foundations or Community Foundations of America.

Public Charity Funds

A number of public charities have created donor-advised funds that facilitate or promote the charities' exempt purposes. These donor-advised funds are often organized like community foundations, but differ in scope, and tend to offer assistance on various projects. Donor-advised funds run by a public charity may also have a narrow focus, and most require that all or a portion of the fund benefit the charity or its programs

Commercial Funds

The increasing interest in utilizing donor-advised funds as a vehicle for charitable giving has attracted commercial groups, many of which now offer donor-advised funds. Typically, donor-advised funds are subject to the money management and broker fees as other accounts held by commercial funds.

Internationally Focused Funds

Donors who have an interest in international giving can give to charities that focus their giving on organizations in other regions or countries.